

Exhibit J

Gaotu Techedu Inc. NYSE:GOTU

FQ2 2021 Earnings Call Transcripts

Wednesday, September 22, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

| | -FQ2 2021- | | | -FQ3 2021- | -FY 2021- | -FY 2022- |
|-----------------------|------------|---------|----------|------------|-----------|-----------|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | (1.24) | (2.98) | NM | (2.42) | (6.74) | (2.55) |
| Revenue (mm) | 2217.35 | 2232.25 | 0.67 | 2314.66 | 9743.01 | 14741.00 |

Currency: CNY

Consensus as of Sep-20-2021 11:15 PM GMT

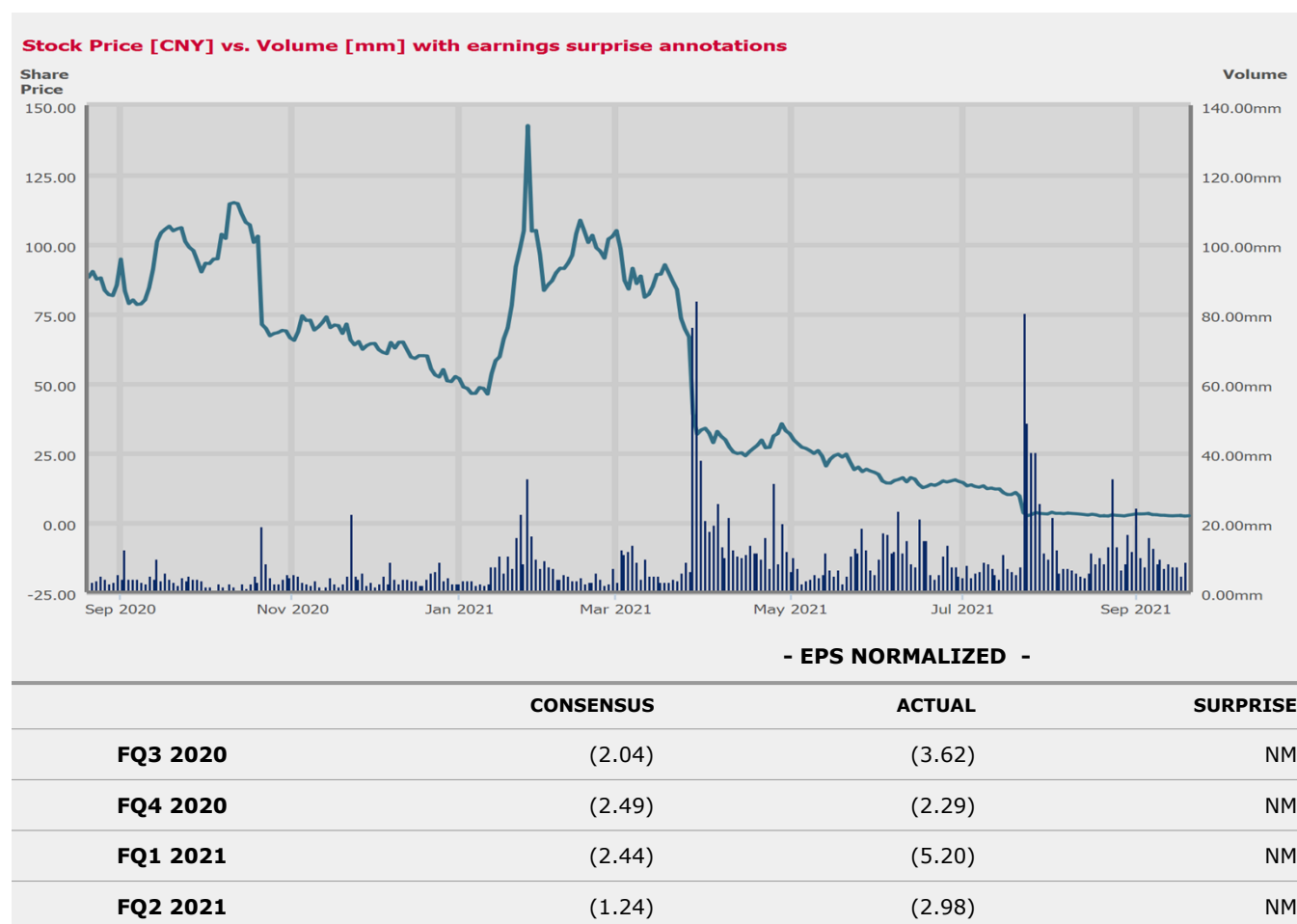


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Call Participants

EXECUTIVES

Nan Shen

Chief Financial Officer

Sandy Qin

*Senior Manager of Investor
Relations*

Xiangdong Chen

Chairman & CEO

ANALYSTS

Mark Li

Citigroup Inc., Research Division

Stephen Yang

*Goldman Sachs Group, Inc.,
Research Division*

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gaotu Techedu Inc. Second Quarter 2021 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded on Wednesday, September 22, 2021.

I would now like to hand the conference over to your first speaker today, Ms. Sandy Qin, IR Director of GOTU. Thank you. Please go ahead.

Sandy Qin

Senior Manager of Investor Relations

Thank you, operator. Hello, everyone, and thank you for joining us today. GOTU's earnings release was distributed earlier and is available on the company's IR website at ir.gotu.com. On the call with me are Mr. Larry Chen, GOTU's Founder, Chairman, and Chief Executive Officer; and Ms. Shannon Shen, Chief Financial Officer.

Larry will give a general overview, and Shannon will discuss the financials. Following the prepared remarks, Larry and Shannon will be available to answer your questions. I will translate for Larry.

Before we begin, I would like to remind you that the conference call contains forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon management's current expectations and current market and operating conditions, and related events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the company's control and may cause the company's actual results, performance or achievements to differ materially.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the SEC. The company does not undertake any obligation to update any forward-looking statements, except as required under applicable law. As a reminder, this conference is being recorded. In addition, a live and archived webcast of this conference call will be available on GOTU's new Investor Relations website at ir.gotu.cn.

It is now my pleasure to introduce Larry. Larry, please go ahead.

Xiangdong Chen

Chairman & CEO

Thank you, Sandy. Good evening, and good morning to you all. Thank you for joining us today on our second quarter 2021 earnings conference call.

In the second quarter of 2021, our revenue has reached a record high of RMB 2.232 billion. Selling expenses margin in the quarter has also substantially dropped and has reverted to a similar low level that we recorded a year ago, and we have entirely stopped new fee advertising spending since mid-May this year.

As you all know, the education industry has experienced some changes over the past few months. However, as the saying goes, we will begin with the end in mind when setting our strategy. We will always remain committed to our original aspiration of quality education, and we will seek to provide authentic educational services. In the meantime, we have actively shouldered our social responsibility at our education company.

Ever since May, we have successfully collaborated with multiple nonprofit organization, including the China Charity's Aid Foundation for Children, the China Youth Development Foundation and the China Next Generation Education Foundation and the Henan Normal University by donating cash or free courses to aid

the revitalization of rural area education and supporting the goal of providing equal access to education for all.

To actively respond to the nation's call, we had recently and rapidly adopted the organizational structure of our company to focus on professional education and STEAM education. And we are further exploring opportunities related to digital products and vocational education. First, we will continue to expand our investments in our existing professional education segments, such as financial certificate and the public office exam preparation, while constantly exploring more professional education portfolio opportunities, such as post-graduate exam preparation and overseas studies preparation, among which Some have already achieved a better-than-industry average online. We aim to establish a diversified professional education portfolio with multiple segments.

Secondly, we have also increased our investments in our STEAM education segment, which is developing rapidly. Take programming as an example. Just in July 2021, the conversion rate from trial classes to regular price for courses exceeded 30%. Thirdly, we are simultaneously exploring new opportunities in various products and vocational education, continuing to reinforce the positive effect, technology and education content and education tools and expanding our footprint across the education sector.

We firmly believe that the education market in China will continue to grow steadily. We also firmly believe that the current education firm will play a very important role in the education. We are confident that our company will live up to our responsibilities and mission.

Since spring, we have made numerous breakthroughs in the K-12 area, including streamlining higher industry supply chain, refining the standard procedures, training experts, teachers at scale, constructing effective services and improving operational efficiencies, all of which helped us accumulate a great deal of insight and expertise. We now plan to replicate this insight and expertise to STEAM education, professional education and vocational education. And we sincerely hope that we can soon return to the profitable growth trajectory that we saw back in 2019.

As many of you know, our company experienced a severe cash shortage in 2016 and 2017 and almost went bankrupt. We call it the darkest moment internally. But it was exactly and that pressure that we came together as a united and effective team with tremendous, coherent and the best execution to build a miraculous business that generated rapid revenue growth and growing profitability over 7 consecutive quarters.

If 2014 was our first time as a start-up and 2015 was our second start, then we can say that 2021 is our third start. As someone who has worked in the education industry for 33 years, I believe we should always have love for our family and our country, always keep the end goal of education in mind, always firmly believe that education is a noble profession and always have faith that the future ahead is bright, both for our industry and our society.

Now I will pass the call over to our CFO, Shannon, to walk you through our financial and operational details.

Nan Shen

Chief Financial Officer

Thanks, Larry, and thank you, everyone, for joining the call. Now I will walk you through our operating and financial results. Please note that all financial data that I mention later is in RMB terms unless otherwise noted. First, allow me to share with you some details about the compliance status post policy changes.

On July 24, 2021, China's official state media, including Xinhua News Agency and China Central Television, announced the opinions on further alleviating the burden of homework and after-school tutoring for students in compulsory education, which was issued by the General Office of the CPC Central Committee and the General Office of the State Council. We later issued an announcement informing that the policy will have a material impact on our operations. Since the new policy announcement, we are dedicated to respond within the shortest time of period and to adjust our business and strategy accordingly with high compliance standards, which can be seen from the following aspects.

Regarding advertising, we stopped acquiring traffic from online social platforms since the second quarter. Regarding class hour adjustments, we strictly abide by the new rule that after-school tutoring institutions shall not organize any classes on national festivals, weekends or summer and winter holidays. We have adjusted full class schedule for compulsory education classes from weekends and national festivals to legal time from Monday to Friday required by the new policy. Based on the data we have, the retention rate after schedule adjustment is in single digits.

Regarding the standardization of the content, we strictly tracked and reviewed our content to make sure no content is out of the regulatory limit. Regarding the requirement on tuition prepayments, according to the requirement by the Beijing government on the management of upfront tuitions after-school subject to tutoring institutions, we have technologically collaborated with custodian banks to monitor upfront tuition, return the required funds properly and make sure our clients' right to refund is protected.

Moving on, we will continue to focus on the following 2 aspects. First, regarding fee stand on tuitions. On September 6, the National Development and Reform Commission, the MOE, and the State Administration for Market Regulation jointly issued an announcement on adopting a government-guided pricing mechanism for curriculum based after-school tutoring courses for students at the stage of compulsory education. Online and offline subjects tutoring institutions for students at the stage of compulsory education must adopt government instructed price limits with the upper limit of the price range set by local government no higher than 10% and no lower limits. Up until now, we have not yet received any price list guidance on the price control on online education. We will adjust our pricing after we have received specific government instructions.

Second, in terms of turning academic AST institutions for students at the stage of compulsory education into not-for-profit organizations, we will continue to communicate with the government. Gaotu will strictly abide by all the laws and regulations and communicate with all of our stakeholders promptly.

Now let's review our financial and operational status of this quarter. For the second quarter of 2021, net revenues increased 35.3% year-over-year to CNY 2.23 billion, driven by our continuously expanding paid course enrollment growth, thanks to our enhanced teaching quality and brand recognition. Gross billings, the leading indicator for net revenue, was CNY 2.7 billion, increasing by 12.2% year-over-year from CNY 2.4 billion last year. Paid course enrollments, which refers to enrollments price at or above CNY 99, increased to a record high of CNY 1.63 million for the quarter, a 4.1% year-over-year increase.

Now let's break down our operations and financials by business lines. Net revenue from our K-12 courses, including STEAM courses, increased by 51% year-over-year to CNY 2.09 billion and accounted for 94% of net revenues. Gross billings contributed by K-12 courses increased by 17.2% year-over-year to CNY 2.58 billion. Paid course enrollments for K-12 grew by 4.5% year-over-year to CNY 1.56 million. Average enrollments processed was 1,700 in the second quarter in 2021 compared to 2,300 in the previous quarter. For the above quarter, the number slipped slightly because we offered shorter-term courses with smaller class sizes to cater various students' needs.

Net revenues from our foreign language, professional, admission and other vocational education services grew to CNY 141 million and accounted for 6% of net revenues. Gross billings contributed by foreign language, professional, admission and other services reached CNY 120.2 million. Paid course enrollments for foreign language, professional, admission and other services hit 68,000.

Moving over to our selected financial metrics summary. Our cost of revenues increased by 100.8% year-over-year to CNY 724 million. The year-over-year growth rate was mainly due to increases in compensation for instructors and tutors, learning materials, rental expenses as well as salary and other costs.

GAAP gross profit margin decreased to 67.6%, down from 78.1% in the same period of 2020. Non-GAAP gross profit margin, which excludes share-based compensation, decreased to 69.1%, down from 79.1% in the same period of 2020. The decrease was primarily due to an increase in the number of and tutors to enhance our service level and the personalized experience that our students received as well as an increase in compensation for such staff.

Selling expenses increased to about CNY 1.64 billion in the second quarter of 2021. Within that, expenses for traffic acquisition were approximately CNY 0.9 billion. Expenses for branding activities were approximately CNY 95.1 million, hence the remaining expenses cover labor, servers, et cetera. The selling expenses margin decreased year-over-year to 74%. We have seen continued improvement of margins, which falls back to its original level a year ago since we stopped news feed and online advertising spending in May.

Research and development expenses increased by 204.9% year-over-year to CNY 427 million. The increase was primarily due to an increase in the number of course -- professionals and technology development personnel as well as an increase in compensation for such staff. G&A expenses increased by 128.9% to CNY 242 million, mainly due to an increase in G&A headcount and related compensation.

Non-GAAP net loss was CNY 763.9 million compared to net income of CNY 72.7 million in the first quarter of 2020. GAAP net loss margin was 41.2%. As of June 30, 2021, we had CNY 1.02 billion of cash and cash equivalents, restricted cash; CNY 3.95 billion of short-term investments and CNY 518.5 million of long-term investments, combining to be CNY 5.49 billion.

As of June 30, 2021, our deferred revenue balance was CNY 1.98 billion. Deferred revenue primarily consists of the tuition collected in advance. Net operating cash outflow for the second quarter of 2021 was CNY 318.6 million.

Considering the uncertainty that the government policy brings to the following financial conditions, we will not provide the next quarter's performance guidance for now.

That concludes my prepared remarks. Operator, we are now ready to take questions. Thanks.

Question and Answer

Operator

[Operator Instructions] The first question comes from Stephen Yang with Goldman Sachs.

Stephen Yang

Goldman Sachs Group, Inc., Research Division

So we've got 2 questions. First is on the plans and priorities in the next 12 months. For example, on professional and STEAM. And more details on how the company has reorganized so far accordingly, for example, how many percentage of the organization can be tied to the future plans?

Xiangdong Chen

Chairman & CEO

[Foreign Language]

Sandy Qin

Senior Manager of Investor Relations

[Interpreted] Thank you. So we believe under the current policy guidelines, we are the first online education company to formally adopt the online teaching services for 3- to 6-year-old children. And we are the first education company to fully stop all the traffic acquisition spending on the free channels. And I believe we might also be the first one among the top players to have a comprehensive and very rapid reorganization through further classes on our courses given.

Xiangdong Chen

Chairman & CEO

[Foreign Language]

Sandy Qin

Senior Manager of Investor Relations

[Interpreted] So in the next couple of months, we will focus on 2 assets. First of all, we will focus on our organization, focus on talent and focus to delivering the best product. In the past 7 years, I think the previous wealth we have accumulated across the organization, our brand and the recognition we have realized that is time. So we will continuously to let our organization position to grow in a healthy and more powerful way. We will continuously train our talent, so that our people can have a better growth. And then we will continuously to improve and optimize our products. We will develop the product that our customers really like, so that we can use our products to represent our organization service plans.

Xiangdong Chen

Chairman & CEO

[Foreign Language]

Sandy Qin

Senior Manager of Investor Relations

[Interpreted] So according to the current policy, the double reduction policy mainly focused child free education and after school tutoring. I believe, in spite of the uncertainty brought by these certain policy monitoring, we will focus on 3 business lines. First, professional education. As you know, we have started this assessment since 2016, and we have accumulated a lot of experiences. We have heavily also made some trial and errors. And I believe as we adjust our operating model, we will make some breakthroughs definitely in STEAM courses. As I spoke earlier, we have tried programs, and we have seen a lot of great data. So going forward, we will further explore the STEAM courses. Lastly, we will try the vocational

education and also digital products. We are having some exploration and according to our long-term development plan and the position of the company, I believe, we will do something great.

Stephen Yang

Goldman Sachs Group, Inc., Research Division

Got it. The second question is regarding not-for-profit organization. So the MOE has published a document specifying the measures of online education reregistration. So would you mind sharing the company's registration progress so far? And if registered as not-for-profit organization, how will that impact shareholders, for example, the onshore, offshore assets?

Nan Shen

Chief Financial Officer

Thanks, Stephen. On September 16, the MOE and other 6 government ministries jointly announced a guidance stating the online education institutions needs to change from the registration-based regime to an approval-based regime. And for compulsory education service provider, like all the service providers need to be approved as not-for-profit institutions by the end of this year. So this is like a high-level instruction. And according to the announcement, the proactiveness of being approved is that the organization has to be registered with the government in the past, which Gaotu has already done in 2020. We were already on the list issued by the Beijing Education Bureau.

So other requirements to be approved also include having qualified offline training centers, having secured data and the privacies and so on. So we will strictly follow the notice to ensure full compliance and maintain frequent communications with the regulators. But besides the announcement, we are talking to the regulators on a weekly basis, just try to get a more detailed instructions about how it should do for the following months. So it's still in ongoing status. We will update you once we have a clear and specific instructions.

Operator

The next question comes from Mark Li with Citi.

Mark Li

Citigroup Inc., Research Division

May I ask a question on the staff optimization, given the big change of our focus from the subject-based tutoring to the other area? How big would the staff optimization? And when would you think it would last? And what would be the cash impact to the -- over RMB 5.5 billion of cash we have on hand?

Nan Shen

Chief Financial Officer

Thanks, Mark. So we reacted in the shortest time right after the double reduction policy was released. So the restructuring was already done back in July and August. We closed certain operating centers outside of Beijing, and we also paid for the severance costs for some of the employee layoffs. So it's a tough decision to make. But making that decision quickly also lets us a precious time and room to think about our future and make the right decisions. So we expect our company size and employees' scale to be stable in the short term to support us to explore our new businesses.

And also from the cash perspective, like I just mentioned, we have around CNY 5.5 billion of cash and cash equivalents and short-term and long-term investments on hand. Even like we paid for the cancellation penalties for leasing agreement or the severance cost for our employees, that still left us sufficient cash to continue to develop and explore new business and support our business in the future. So we are in sit -- so I think the key for us to think about is like how to provide a high level -- high quality of learning products that meet the demand for vocational education, for professional education for STEAM courses.

And like Larry just mentioned, we are also developing our digitalization products to provide more efficient learning methodology for our customers. So we will try our best. Larry just mentioned, this is our -- the

third time for us to kind of like explore for the new business. We will try our best to assure you that the team still holds the faith in the future of the education industry and also in the company. Thanks.

Mark Li

Citigroup Inc., Research Division

May I know what's the number of TA we have at this moment?

Nan Shen

Chief Financial Officer

After all the restructuring for our employees, we still maintain sufficient tutors to support the learning service for our first semester students. So the number fits of our current company size. And we will adjust the employee scale and led the skill to fit the future development of our company.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Sandy Qin for any closing remarks.

Sandy Qin

Senior Manager of Investor Relations

Okay. Thank you, operator, and thank you, everyone, for joining the call today. If you have any further questions, please don't hesitate to contact the company or contact us via e-mail ir@gotu.cn directly. Please feel free to subscribe to our news alert for quarterly investor news letters on the company IR website. Thank you very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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